

Message Text

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PAGE 01 RANGOO 01050 01 OF 02 140937Z
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TO SECSTATE WASHDC 3327

C O N F I D N T I A L SECTION 1 OF 2 RANGOON 1050

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E.O. 11652: GDS
TAGS: PFOR, AMGT, ECON, BM
SUBJ: EAST ASIA ECONOMIC POLICY REVIEW

REF: (A) STATE 73295, (B) RANGOON 863, (C) STATE 43659

1. REF B IDENTIFIED U.S. ECONOMIC INTERESTS IN BURMA; SET FORTH ECONOMIC OBJECTIVES WITH RESPECT TO THESE INTERESTS; OUTLINED A COURSE OF ACTION TO ATTAIN THESE OBJECTIVES; AND SPECIFIED A CONFLICT THAT COULD ARISE BETWEEN PURSUIT OF ECONOMIC GOALS AND OTHER U.S. INTERESTS. BELOW IS A BRIEF RECAPITULATION OF ECONOMIC POLICY SET FORTH IN REF B.

A. FIRST ECONOMIC INTEREST: ENHANCEMENT OF BURMA'S POTENTIAL CONTRIBUTION TO REGIONAL AND WORLD ECONOMIC WELL-BEING. OBJECTIVES RELATING TO THIS INTEREST ARE: (1) LIBERALIZATION OF GUB PROHIBITION AGAINST PRIVATE FOREIGN INVESTMENT; (2) MOBILIZATION OF BURMA'S PRIVATE RESOURCES FOR INVESTMENT; AND (3) EFFECTIVE GUB UTILIZATION OF MULTILATERAL ASSISTANCE.

B. SECOND ECONOMIC INTEREST: MUTUALLY BENEFICIAL ECONOMIC ACCESS FOR AMERICANS. OBJECTIVES RELATING TO

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PAGE 02 RANGOO 01050 01 OF 02 140937Z

THIS INTEREST ARE: (1) A SITUATION WHERE ALL INTERESTED U.S. BUSINESS HAS THE NECESSARY INFORMATION, FACILITIES AND ADVICE TO CONDUCT PROFITABLE BUSINESS WITH BURMA; (2) KNOWLEDGE OF ALL MAJOR BUSINESS BE AVAILABLE TO U.S. PUBLIC; AND (3) NO GUB DISCRIMINATION AGAINST U.S. ACCESS TO BURMESE MARKETS OR RESOURCES.

C. COURSE OF ACTION:

(2) U.S. PARTICIPATION IN CONSULTATIVE AID GROUP WITH POSTURE OF SYMPATHY COMBINED WITH FIRM INSISTENCE ON PROGRESS AS A PRECONDITION FOR AID, AND UTILIZATION OF THE GROUP AS A MEANS TO CONVEY ADVICE TO THE GUB AND TO COORDINATE WITH OTHER DONOR MEMBERS.

(2) CONSIDERATION OF OCCASIONAL SMALL ASSISTANCE WHEN APPROPRIATE TO AVOID AN OVERLY NEGATIVE POSTURE.

D. ISSUE:

EXCESSIVELY HARSH U.S. PRESSURE FOR ECONOMIC REFORM COULD HARM OUR COMMERCIAL INTERESTS OR DIPLOMATIC INFLUENCE. PRESENT U.S. POSITION IS FAR FROM HARSH, BUT FLEXIBILITY IS NECESSARY.

WITHIN THIS FRAMEWORK WE CAN DISCUSS THE POLICY INSTRUMENTS AVAILABLE TO ATTAIN OUR GOALS.

IFI'S

THE IFI'S, PARTICULARLY IBRD, ADB AND IMF, ARE THE PRIMARY INSTRUMENTS THAT CAN CONTRIBUTE TO THE FIRST U.S. ECONOMIC INTEREST; AND BY DEFINITION THEY ARE IN THE BEST POSITION TO ATTAIN OBJECTIVE NUMBER THREE UNDER THAT INTEREST. THE GUB IS FAR MORE INCLINED TO ACCEPT EXTERNAL ECONOMIC ADVICE FROM MULTILATERAL SOURCES THAN FROM BI-

CONFIDENTIAL

PAGE 03 RANGOO 01050 01 OF 02 140937Z

LATERAL SOURCES. THE FEW ECONOMIC REFORMS INITIATED BY THE GUB IN THE PAS TWO YEARS HAVE LARGELY COME ABOUT IN RESPONSE TO IFI RECOMMENDATIONS. THE GUB PERHAPS RECOGNIZES THAT IT MUST ACCEPT PRAGMATIC ADVICE AND CRITICISM OF ITS ECONOMIC POLICIES AS PART OF THE PRICE IT MUST PAY FOR MULTILATERAL ASSISTANCE. IN THE PAST IFI'S HAVE OFTEN BEEN RELUCTANT TO BE TOO OPENLY CRITICAL OF BURMA'S ECONOMIC POLICIES EVEN WHEN THE SUCCESS OF CERTAIN IFI-FINANCED PROJECTS SEEMED IN JEOPARDY BECAUSE OF GUB SHORTCOMINGS. AT THE SAME TIME THEY HAVE TENDED TO LAUD THOSE ECONOMIC REFORMS INITIATED BY THE GUB, OFTEN WITHOUT EVALUATING HOW EFFECTIVELY THESE REFORMS ARE BEING IMPLEMENTED. THIS RELUCTANCE TO CRITICIZE AND TENDANCY TO LAUD WAS DUE IN PART TO AN ATTEMPT BY THE VARIOUS INSTITUTIONS TO PROMOTE THOSE INDIVIDUALS OR FACTIONS WITHIN THE GUB THAT THEY BELIEVED MOST RESPONSIVE TO PRAGMATIC ECONOMIC ADVICE. RECENTLY MANY OF THE PEOPLE SO IDENTIFIED BY THE IFI'S HAVE LOST THEIR POSITIONS OR INFLUENCE WITHIN THE GUB, AND WE HOPE THIS EVENT WILL CAUSE THE IFI'S TO RE-

ASSESS THIS POLICY. THE USG SHOULD USE ITS INFLUENCE WITH IFI'S TO ENCOURAGE A BOLDER APPROACH TO THE GUB IN REGARD TO RECOMMENDATIONS FOR REFORM, CRITICISM OR SHORTCOMINGS AND EVALUATION OF REFORM AND PROJECT IMPLEMENTATION. THE IBRD SHOULD BE URGED TO STRUCTURE THE CONSULTATIVE GROUP IN A MANNER WHICH WOULD MAKE IT AN EFFECTIVE FORUM FOR ADVICE ON PROMOTING BURMA'S ECONOMIC DEVELOPMENT. AS A MEANS TO PROMOTE BETTER UTILIZATION OF MULTILATERAL ASSISTANCE, THE U.S. SHOULD ENCOURAGE ONE OF THE IFI'S (THE MOST LIKELY CANDIDATE BEING THE WORLD BANK) TO STATION A PERMANENT REPRESENTATIVE IN BURMA. IN SUM, THE USG CAN WORK THROUGH IFI'S TO ATTAIN GOALS IN BURMA, BUT WE NEED TO MAINTAIN OUR LEVERAGE WITHIN THESE INSTITUTIONS AND OUR POLICIES TOWARD THEM BOTH FINANCIAL AND ETHICAL MUST BE SUCH THAT OUR INFLUENCE ON THEIR PROGRAMS IS NOT DIMINISHED.

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PAGE 01 RANGOO 01050 02 OF 02 140941Z
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C O N F I D E N T I A L SECTION 2 OF 2 RANGOON 1050

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TRADE CONCESSIONS AND TRADE PROMOTION
BURMA HAS FAILED TO TAKE ADVANTAGE OF POSSIBLE OPPORTUNITIES OFFERED BY THE GSP AND QUITE LIKELY WOULD ALSO FAIL TO TAKE FULL BENEFIT FROM ANY PROPOSED TRADE CONCESSIONS. THIS IS DUE TO A NUMBER OF FACTORS LARGELY CONNECTED WITH BURMA'S PRESENT ECONOMIC SYSTEM. AMONG THESE ARE LACK OF EXPORTABLE PRODUCTION, LACK OF MARKET KNOWLEDGE AND LACK OF INCENTIVE TO EXPORT. INCREASED BURMESE EXPORTS TO THE U.S. WOULD ENCOURAGE GREATER BURMESE PURCHASES FROM U.S. SUPPLIERS AND COULD ALSO PROVIDE AN ADDITIONAL SOURCE OF SUPPLY FOR THE U.S. MARKET (BEST IMMEDIATE PROSPECTS ARE TIMBER AND MARINE PRODUCTS). WITH THE U.S. BALANCE OF TRADE WITH BURMA RUNNING ROUGHLY NINE TO ONE IN OUR FAVOR, WE COULD WELL AFFORD TO INCREASE OUR IMPORTS FROM BURMA.

WHILE TRADE CONCESSIONS ENGINEERED THROUGH INTERNATIONAL FORA MAY HELP TO SHOW OUR CONCERN FOR BURMA'S PROBLEMS, AS NOTED ABOVE, THESE CONCESSIONS UNDER PRESENT CIRCUMSTANCES ARE NOT LIKELY TO LEAD TO INCREASED BURMA/U.S. TRADE RELATIONS. WE BELIEVE THE EMBASSY SHOULD UTILIZE SOME OF ITS LIMITED RESOURCES TO ASSIST THE GUB TO MARKET ITS EXPORTABLES IN THE U.S., A PROGRAM WHICH IN MOST COUNTRIES (AND RIGHTLY SO) WE REGARD AS THE RESPONSIBILITY OF THE LOCAL GOVERNMENT AND LOCAL BUSINESS INTERESTS.

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PAGE 02 RANGOO 01050 02 OF 02 140941Z

BURMA'S LACK OF FOREIGN EXCHANGE CONTINUES TO FRUSTRATE U.S. SALES PROMOTION EFFORTS. UNTIL SUCH TIME AS MORE PRAGMATIC ECONOMIC POLICIES HELP THE COUNTRY TO APPROACH ITS ECONOMIC POTENTIAL, OUR EFFORTS IN THIS REGARD WILL BE LIMITED TO KEEPING A FOOT IN THE DOOR AND MAINTAINING EQUAL ACCESS FOR U.S. BUSINESS CONCERNS. THIS CAN BEST BE ACCOMPLISHED BY EXHIBITING OUR SYMPATHY FOR BURMA'S PRESENT ECONOMIC PROBLEMS; KEEPING U.S. BUSINESS INFORMED OF THE FEW TRADE OPPORTUNITIES THAT DO EXIST IN BURMA; AND BY ASSISTING U.S. FIRMS TO DO BUSINESS UNDER THE RATHER UNIQUE ATMOSPHERE OF BURMA'S ROAD TO SOCIALISM. IT WOULD BE A MISTAKE TO ASSUME THAT COMMERCIAL PROSPECTS IN BURMA WILL ALWAYS BE SUCH THAT WE CAN AFFORD TO IGNORE THIS POTENTIAL MARKET.

EXIMBANK

THE EXIMBANK HAS ASSUMED A NEGATIVE POSITION TOWARD CREDIT FOR BURMA. THIS POSITION SEEMS UNWARRANTED BY BURMA'S PAST REPAYMENT RECORD, AND U.S. SUPPLIERS HAVE LOST SALES OPPORTUNITIES AS A RESULT OF IT. WE BELIEVE THE EXIMBANK SHOULD RESPOND MORE POSITIVELY TO REQUESTS FOR FINANCING, NOT ONLY IN BURMA BUT IN THE REGION, WHERE U.S. COMMERCIAL OR OTHER INTERESTS MIGHT BE ADVANCED, AND WHERE RISKS OF DEFAULT ARE NOT EXCESSIVE. WE RECOGNIZE THAT THIS FORM OF INTERMEDIATE FINANCE IS NOT INTENDED AS A SUBSTITUTE FOR CONCESSIONAL BILATERAL ASSISTANCE, BUT THE GUB WOULD LIKELY VIEW AN EXTENSION OF EXIM CREDIT AS A U.S. EFFORT TO ASSIST THE COUNTRY'S ECONOMIC DEVELOPMENT. AS SUCH, THIS FORM OF FINANCING WOULD CONTRIBUTE TO RESOLVING THE CONFLICT NOTED IN OUR PARM.

INVESTMENT

WE HAVE LISTED LIBERALIZATION OF GUB POLICY AGAINST PRIVATE FOREIGN INVESTMENT AS ONE OF OUR OBJECTIVES. THIS INVESTMENT SEEMS THE MOST EFFICIENT METHOD OF PROVIDING

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PAGE 03 RANGOO 01050 02 OF 02 140941Z

CAPITAL FOR DEVELOPMENT AND TRANSFERING TECHNOLOGY. AT THE SAME TIME, IT CAN PROMOTE U.S. COMMERCIAL INTERESTS. PRESENT U.S. EFFORTS IN BURMA SHOULD CONTINUE TO FOCUS ON MAINTAINING EQUAL ACCESS FOR U.S. BUSINESS SHOULD THE GUB RELAX ITS PRIVATE INVESTMENT RESTRICTIONS. WHAT IS NEEDED IS A CLEAR STATEMENT OR RESTATEMENT OF BROAD U.S. POLICY IN THIS REGARD. THIS IS NEEDED TO REASSURE U.S. OVERSEAS BUSINESS CONCERNS, MANY OF WHOM HAVE COME TO RETARD THE USG IN AN ADVERSARY POSITION ON THIS ISSUE, TO INFORM POTENTIAL RECIPIENT NATIONS, MANY OF WHICH NOW SEEM UNCERTAIN OF U.S. INVESTMENT POLICY, AND TO INFORM OUR OWN EMBASSIES ABROAD, MANY OF WHICH ARE UNSURE OF HOW THEY SHOULD NOW ALLOCATE THEIR LIMITED RESOURCES IN PROMOTING THIS ASPECT OF U.S. INTERNATIONAL COMMERCIAL ENDEAVOR.

U.S. CONCESSIONAL ASSISTANCE

AS NOTED IN OUR PARM, USG SHOULD CONSIDER OCCASIONAL SMALL ASSISTANCE SUCH AS AGRICULTURAL COMMODITY LOANS. WHERE APPROPRIATE, WE SHOULD ALSO BE PREPARED TO RESPOND POSITIVELY TO GUB REQUESTS FOR GRANT OF US-OWNED KYAT TO FINANCE DEVELOPMENT PROJECTS. WE SHOULD MAINTAIN A FLEXIBLE POSTURE REGARDING OTHER BILATERAL ECONOMIC ASSISTANCE. OUR POSITION SHOULD ALLOW US TO BE RECEPTIVE TO POSSIBLE GUB APPROACHES FOR ASSISTANCE AND TO USE SUCH APPROACHES TO REITERATE OUR INSISTENCE ON ECONOMIC PROGRESS AS A PRECONDITION FOR AID. IF , BUT ONLY IF, U.S. ASSISTANCE COULD CLEARLY BE USED FO FURTHER OUR STATED INTEREST IN ENHANCING BURMA'S ECONOMIC POTENTIAL OR IF ASSISTANCE WOULD CLEARLY BE IN THE GENERAL INTEREST OF THE USG AND ITS CITIZENS, WE SHOULD BE IN A POSITION TO MAKE A POSITIVE RESPONSE.

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